

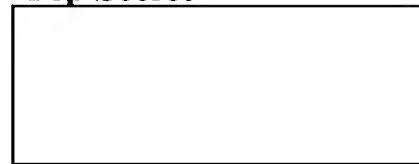
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Director of
Central
Intelligence

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National Intelligence Daily (Cable)

7 December 1978

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IRAN: Possible Showdown Sunday

Unrest continues in Iran, although it has abated somewhat in Tehran the past two days. The opposition and the government are preparing for a possible showdown Sunday and Monday, the holiest days of the Muslim month of Moharram. The opposition is trying to build up arms supplies, and the first confirmed instance of sabotage occurred yesterday at the Iranian Air Force base in Tabriz.

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Yesterday, the Shah released from prison two leaders of the opposition National Front, Karim Sanjabi and Daryush Foruhar. The government had arrested them last month as they prepared to endorse publicly the hardline stand of exiled religious leader Khomeini. The Shah presumably hopes this step will keep the National Front negotiating and prevent it from joining forces with Khomeini even if a settlement is not reached.

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The Iranian authorities continue to be concerned that Khomeini may suddenly return to Iran.

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//Numerous reports indicate that the Iranian dissidents are securing increasing numbers of small arms. The government has announced finding arms caches in Mashhad and Rezaiyeh in the past two weeks, and a reliable source of the US defense attache reports that arms are being smuggled across the Persian Gulf to Bandar Abbas, Shiraz, and Kerman. The traditional routes for smuggling arms into Iran include the Gulf coast and Iran's long and mountainous borders with Afghanistan, Turkey, and Iraq.

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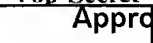
In the first confirmed instance of sabotage activity affecting the military, unknown persons cut the electrical wiring to a switch controlling the landing gear of several Iranian Air Force F-5 jet fighters in Tabriz. 

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//The defense attache reports that significant numbers of Iranian military officers and other high-level officials have moved their families out of the country in anticipation of major demonstrations this weekend. Iranian Jews, other minorities, and foreigners are also fleeing the country. Anti-American incidents including threats, firebombings, and other harassments have increased in the last few days.// 

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EC: EMS Membership Still Uncertain

//European Community leaders unanimously approved the basic design of the European Monetary System at the summit meeting this week in Brussels, but only France has agreed to align its currency in the new arrangement with the currencies of those countries that already participate in the "snake"--a system in which the countries jointly float their currencies. Disagreement over the level of resource transfers that should accompany the new monetary system was the major stumbling block that led the UK, Italy, and Ireland to balk at participating in the system, which will start on 1 January 1979. Italy and Ireland plan to make a final decision in about a week. The UK has confirmed that it will not participate in the system when it begins. The limited success of the summit may prove embarrassing to West German Chancellor Schmidt, who proposed the new system, and French President Giscard, who supported it.//

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//The basic ingredients of the new monetary arrangement include:

- A parity-grid intervention system with a 2.25-percent band around central rates for "snake" countries and bands of 6 percent allowed for "non-snake" countries.
- A basket of EC currencies imposed on the grid to act as an indicator of divergence and trigger at least consultation by a country with a diverging currency.
- A credit facility to finance intervention and balance-of-payments support.
- Use of the European Currency Unit as a unit of account for settlements between member central banks.//

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//Because not all EC countries will be in the system at first, the EC Finance Ministers may have to work out a number of technical difficulties when they meet on 18 December. One such issue is the amount of money the credit facility should have. Having fewer members in the system may mean a smaller credit arrangement will be established than the \$33 billion agreed to at the summit.//

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[REDACTED]

//Some West European commentators note that the new system has a better chance for success without the initial participation of the economically weaker countries and that, even with limited membership, the scheme is a step toward monetary integration. The overall impression may nevertheless be that European solidarity was found wanting and that movement toward a "two-tier" Community has been confirmed.// [REDACTED]

//The UK, Italy, and Ireland have consistently demanded that the EC increase payments through the EC budget to cushion any deflationary consequences for their economies that result from the monetary system. The West Germans and French apparently expected to be unable to meet British demands at the summit but thought they would be able to accommodate the Italians and Irish. When the EC leaders discussed specific amounts, however, France was unwilling to permit an increase in the EC regional fund as large as that demanded by Italy and Ireland.// [REDACTED]

//The French resisted a large increase in funds for EC regional development for political reasons. To meet these requests would, in effect, have meant the French would be approving earlier demands by the European Parliament that the regional budget be increased, and an apparent bow to the European Parliament would pose serious political problems for the French Government. Only last week Giscard's government suffered its first legislative defeat since the spring election when Gaullists, Communists, and Socialists banded together to kill a bill that provided for harmonizing France's value-added tax system with that of its EC partners.// [REDACTED]

//As accomplishments, Giscard can point to having rejected "exorbitant" Italian and Irish demands and to an EC commitment to phase out intra-EC agricultural payments that make French farm goods less competitive with West Germany's. The French President, however, will be subject to criticism that France has decided in effect only to re-enter the old West German mark-dominated "snake" and that the franc risks being exposed as the system's weakest currency.// [REDACTED]

//Schmidt's reputation may be somewhat tarnished by the limited success of the summit because the present effort to establish a new currency-stabilization scheme was very largely his brainchild. If the economically

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weaker countries do not join the system, the West Germans could be accused of not preparing sufficiently for the summit. Economic critics in West Germany, however, may be relieved if the UK, Italy, and Ireland do not participate in the system because West Germany would then not have to support their currencies and would face fewer inflationary strains.// []

//British Prime Minister Callaghan may have postponed a political fight with anti-Marketeters at home by not requesting parliamentary approval to join the intervention system at this time. The summit agreement apparently permits the UK to join some of the credit mechanisms and consultative arrangements of the monetary system.// []

//Callaghan is still stressing publicly the need for reform of the EC's farm policy, but the UK's failure to participate fully in the European Monetary System could weaken its voice on this and such matters as regional policy.// []

//The initial Irish reactions to the summit do not augur well for Dublin's participation in the monetary arrangements. Although Ireland had indicated a willingness to join even without the UK, officials and the press have professed shock at the "meager" resource transfers offered in Brussels.// []

//The insistence with which Italian Prime Minister Andreotti presented his demands in Brussels reflects not only the Italian economic situation but also the fact that the Communists and Socialists have criticized the new monetary system. Andreotti probably still believes that membership would be in Italy's overall political interest, and he wants the political parties to take the responsibility for any negative decision.// []

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[REDACTED]

SENEGAL: Withdrawal from Zaire

//Senegal is planning to withdraw its military contingent from the Inter-African Force in Zaire's Shaba Region within the month. The Senegalese originally planned to keep their unit in Shaba at least until next March. Morocco is also considering withdrawing its 1,500 soldiers.// [REDACTED]

//Only a promise by France or the US of significant financial assistance for the Senegalese Army could influence President Senghor to reverse his decision, according to US officials in Dakar. Withdrawal of the 600-man Senegalese battalion, which comprises a quarter of the entire Inter-African Force in Zaire, would significantly weaken the force and could lead to its early dissolution. Zairians are not yet capable of maintaining security in Shaba.// [REDACTED]

Senegalese Defense Minister Cledor Sall told US Embassy officials yesterday that his government is going ahead with plans to withdraw all Senegalese forces before the end of this month. He urged the US and France to prepare to airlift the troops home. Senghor has informed Zairian President Mobutu of Senegal's decision, and Mobutu apparently did not request an extension. [REDACTED]

[REDACTED]

//Senegalese Army commanders have been worried about increasing disorderliness and declining morale among their soldiers in Shaba, who they believe are influenced in part by the slovenly behavior of many Zairian soldiers. In addition, Senegalese troops at home, stripped of much of their equipment and supplies for the Inter-African Force and the Senegalese battalion in Lebanon, are not able to train adequately. France has failed to carry out its promise to reequip a new Senegalese battalion to replace the one in Zaire.// [REDACTED]

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//Morocco may also be considering an early withdrawal of its troops but has made no final decision. The Moroccans also have complained of morale and financial problems. Their withdrawal would, in effect, signal the end of the Inter-African Force.//

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//Zairian forces are not yet capable of taking over responsibility for, or the security of, Shaba, despite ambitious training programs sponsored by France and Belgium. The Zairian battalions now undergoing training probably will not be completely ready before next summer.//

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RHODESIA: Internal Politics

Rhodesian Prime Minister Smith and his white colleagues in the transitional government are acting to preserve strong white influence after a new "majority" government comes to power. Smith's actions, however, threaten further to discredit his black partners in the government and cast additional doubt on the viability of the internal settlement.

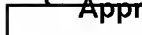
Smith apparently persuaded his black partners to agree to an announcement by the government's Executive Council last week that a government of national unity would be formed after the election scheduled for next April. For a five-year period after the election, every party that wins at least five legislative seats is to receive cabinet posts in proportion to the number of seats won. This ensures a major role for whites, who are guaranteed 28 seats in the projected 100-member legislature.

White officials also have indicated publicly that, despite an earlier announcement that all racial discrimination would end, the current Rhodesian parliament will not consider repealing discriminatory measures until its session in February.

Smith's actions reflect his concern over the continuing high rate of white emigration and represent an effort to increase the confidence of whites in their future in Rhodesia.

Smith's black partners in the transitional government have lost support among Rhodesian blacks because of the government's failure to move quickly toward genuine majority rule. Although the blacks have been critical of Smith's recent moves, they have little choice but to go along. Last week Bishop Muzorewa's chief constitutional adviser became the latest person to leave the Bishop's group. He charged that an elected black government would not have real power.

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PORTUGAL: Program Up for Approval

Portuguese Prime Minister Mota Pinto on Monday opened debate on his program in the Assembly by outlining a plan designed to appeal to the three democratic parties and by making a scathing denunciation of the Communists. The Social Democrats and the Center Democrats have announced their support of the government. Almost certain acquiescence of the Socialists to Mota Pinto's program will assure Portugal of a government, at least for the short run.

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The Prime Minister said he would be willing to operate with the minimum necessary support from the parties and commented that the government would interpret a parliamentary decision not to reject his government as representing the tacit consent of the Assembly. Mota Pinto noted he might ask for a vote of confidence at some future time. This approach could make his tenure more secure as it is difficult to oust a government through a party-initiated censure motion.

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Mota Pinto also emphasized his intention to be flexible in interpreting President Eanes' requirement for an inter-party agreement. He thus left the parties freer to oppose the government on particular points if they show enough flexibility not to vote against it on major issues, such as budgetary and other critical financial matters.

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The Communists jumped the gun on the Assembly debate by attacking Mota Pinto's program at a rally on Sunday when they announced their intention to present a motion of rejection. Communist leader Cunhal tried to shame the Socialists into supporting the Communist motion by saying he would hold them responsible for the survival of a "rightwing" government if they do not support the Communist motion.

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The Social Democrats reaffirmed their intention to support the government against any motion of rejection, and the Center Democrats decided to vote in favor of the government and against any rejection motion.

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Placed in the key position, the Socialists announced they would not vote in favor of the government and that they would decide between abstention and a negative vote on the basis of the Assembly debate. Although the

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Socialists have taken a public stand against the Mota Pinto government, two party officials have told the US Embassy that their party will almost surely abstain on any rejection motion and thereby allow the Mota Pinto government to pass. [REDACTED]

The Socialists' strategy is apparently based on an understanding that Mota Pinto would be careful not to raise insurmountable problems for them in the Assembly debate. They seem to be aiming at setting themselves up as an informal opposition party but cooperating with the government when necessary. President Eanes' apparent acceptance of this arrangement makes it even more probable that the government will be accepted. [REDACTED]

[REDACTED]

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BRIEFS

Bangladesh

President Ziaur Rahman announced last Thursday that Bangladesh's parliamentary election would be held on 27 January rather than this month. In announcing the new date, Zia also promised that martial law would be withdrawn "immediately after the election." The opposition will attempt to make political capital of the delay and the continuation of martial law during the campaign period, but these issues are unlikely to have much effect on the electorate. []

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Although Bangladesh will have a strong president, Zia for the first time made clear that parliament will be empowered to legislate and amend laws, approve the budget, amend the constitution, and impeach the president. One of Zia's senior ministers added that constitutional changes by presidential ordinance would be announced soon. []

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The recent announcements and the repeal in mid-November of a law that permitted the government to control the number of political parties and their activities have partially met some opposition demands. Others remain unfulfilled--the release of political prisoners, restoration of freedom of the press, and repeal of a constitutional amendment that lessens the power of parliament vis-a-vis the president. These issues and the retention of martial law until after the polls may tempt some portions of the fragmented opposition to threaten to boycott the election but should not detract from its orderly conduct. []

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Libya

Libyan officials recently told West German Interior Minister Baum that Libya is not sheltering the four West German terrorists deported from Yugoslavia last month. They also said they would seek to dissuade other countries from harboring the terrorists and would cooperate with West Germany in searching for these "disturbed persons." []

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The head of the American desk in the Libyan Foreign Ministry has informally invited US officials to Libya for specific discussions on international terrorism. [REDACTED]

These developments are consistent with other signs over the past year or so that Libya has reduced its direct involvement in international terrorism and support for Islamic dissidents. Libyan President Qadhafi appears to be reacting to US pressures, primarily in the form of trade sanctions, as well as the military threat from Egypt, more pragmatic counsel from his advisers, and his disillusionment with some of the groups he has supported. [REDACTED]

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FEATURE ARTICLE

EAST - WEST GERMANY: Agreements

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The agreements signed on 16 November by East and West Germany are the most comprehensive and important bi-lateral accords reached since the two governments established quasi-diplomatic relations in 1972. The accords are significant mainly in their long-range implications, and they have major political importance for all parties to the Berlin question. In immediate terms, the balance favors East Germany, but long-term gains accrue mainly to West Berlin, which will become more accessible and will benefit economically.

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The accords call for:

- Construction of a new autobahn from Hamburg to West Berlin, with new border crossing points at Zarrentin and in northern West Berlin. The autobahn will cost West Germany \$600 million.
- Reopening of the Teltow Canal in West Berlin at a cost of \$35 million.
- Repair of the major damaged parts of the Mittel-land and Elbe-Havel Canals between West Germany and West Berlin. The reconstruction will cost \$60 million.
- Conclusion of a 10-year road accord that fixes annual West German transit payments at \$262.5 million.
- Payments by East Germany of \$100 million to facilitate disbursement of credit balances in currency belonging to East German pensioners who have resettled in West Germany.
- Commitment to new discussions in 1980 on further waterway improvements and expansion of the Herleshausen-Wartha crossing point, which would cost at least \$250 million.

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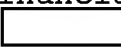
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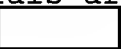
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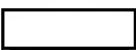



The joint projects stem from the 1971 Quadripartite Agreement on Berlin and the Basic Treaty of 1972, which laid the groundwork for the negotiations. Negotiations were stalled for several months, but they suddenly resumed and proceeded rapidly after Soviet President Brezhnev visited Bonn in May of this year. Many West German officials attributed the progress to the USSR's desire for improved relations with West Germany. 

East and West Germany pursued different goals: the East opted for financial advantage; the West for political objectives. 

The Federal Republic achieved significant transit improvements between West Germany and West Berlin and, because it acted as West Berlin's de facto representative in the negotiations, it strengthened its claim to handle some West Berlin interests, a claim that East Germany has consistently rejected in the past. 

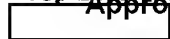
The agreements provide for a continuing dialogue, which will be important both as a stabilizing factor in inner-German relations and detente in Central Europe. West Germany was disappointed that it was unable to achieve anything specific in the area of humanitarian issues, but some West German officials are not totally pessimistic concerning this topic. 

West Berlin stands to benefit in important ways. The new road will shorten travel time between the city and West Germany and will greatly facilitate movement of containerized shipments. Reopening of the Teltow Canal and repairing the other major transit waterways will help local industry in West Berlin by cutting shipping costs. 

The accords are also a psychological boost for West Berliners, who believe they strengthen links to West Germany and make transit a matter of routine rather than of constant negotiation and concern. Inclusion of the autobahn and the Teltow Canal under the transit regulations will reduce but not completely eliminate the chances of East German harassment. 

East Germany will receive in gross terms more than \$3.5 billion in badly needed hard currency over the next 10 years and perhaps smaller additional sums from projects to be discussed in 1980. The cash inflow, beginning

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next year, should substantially alleviate, at least initially, the growing trade deficit with West Germany and prevent any cutbacks in badly needed imports from West Germany. []

Annual hard-currency inflows associated with the accords will total about \$400 million beginning in 1980 and will represent approximately an 80-percent increase over 1978 in transit and service fees paid by West Germany. Total official payments by West Germany, while difficult to assess, may reach more than \$600 million annually. []

The East German debt to West Germany stands at \$1.6 billion and will probably reach \$2 billion by the end of 1979. Neither side appears concerned about the deficit, and East Germany will probably proceed with new long-term capital equipment purchases from West Germany. []

The agreements are a plus for East German party and state chief Honecker, who acquired the financial gains for his country without making any concessions on humanitarian issues. The accords also boost Honecker's policy of controlled but expanded ties with West Germany, especially because the accords include legitimate reasons for him to talk with West German leaders over the next few years. []

There are, however, some potential problems for the East Germans built into the accords. The new road, for example, will open East Germany to more West Germans and probably create additional political, ideological, and security problems. []

Criticism from the opposition parties in West Germany will focus on the lack of any perceptible "human improvements" in East-West German relations. The opposition is likely also to point out that the road and canal improvements are very costly and that East Germany will collect prepayments well before they are begun. []

Although the West German opposition parties will not reject the accords, they will make good use of their standard charge that the government was outbargained. The Bundestag can be expected to endorse the package after lively debate, provided there is no unexpected disturbance to inner-German relations in the meantime. []

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LATE BRIEF

Spain

Returns available early this morning indicate that Spain's electorate has overwhelmingly approved the new constitution. [REDACTED]

Voter turnout of under 70 percent was lower than opinion polls had forecast, but the government will trumpet broad support for the document based on the more than 87 percent affirmative vote from those who went to the polls. As expected opposition was greatest in the Basque region, with the "no" vote and abstention rate in one province about 35 percent and 58 percent respectively. [REDACTED]

Incidents apparently were at a minimum and no major violence was reported during the voting. [REDACTED]

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